



**ATTENTION BUSINESS OWNERS!**  
**7 SECRETS THAT ARE PROVEN TO REDUCE YOUR TAXES**

By Daniel E. Hodges, CPA

As the year draws to an end there is still time to reduce your taxes and plan for next year. Of course there are many steps that you can take to reduce your family or company tax burden but those steps must be taken throughout the year. It is absolutely critical that you do not put off reviewing your tax plan any longer. At midnight December 31<sup>st</sup> it will clearly be too late to do anything other than a tax autopsy. At **Compass CPA Group** our clients know where they stand, **TODAY!** Drawing on our years of experience, we at Compass CPA Group offer the following tips to get you started:

1. **KNOW YOUR INCOME** - Many benefits are tied to adjusted gross income (AGI), and it is key to estimate both your 2005 and 2006 AGI.
2. **KNOW YOUR TAX BRACKET** - Another important number is your "tax bracket" (i.e., the rate at which your last dollar of income is taxed, which for 2005 ranges from 10% to 35%). *Watchout!* Some of the standard planning ideas will not reduce liability if you are subjected to the alternative minimum tax (AMT) because different rules apply.
3. **KNOW YOUR RETIREMENT PLAN** - More opportunities continue for 2005 due to the availability of and changes to retirement savings incentives. Traditional IRA: *Many individuals may make deductible contributions (up to \$4,000.)* Roth IRA: *For many, this type of IRA permits nondeductible contributions (up to \$4,000)* *Tip: Earnings in both types of IRAs grow tax-free however, Roth IRA distributions are designed to be tax-free when withdrawn in retirement.* 401(k) Plan: *The 401(k) deferral limit is \$14,000 for 2005.* SIMPLE Plan: *The SIMPLE plan deferral limit is \$10,000 for 2005. If your plan has been properly amended, those 50 years old by 12/31/2005, may contribute an additional \$4,000 and \$2,000 to 401(k) and SIMPLE plans, respectively.*
4. **KNOW YOUR TIMING** - If you expect higher AGI in 2005 than in 2006 consider deferring income into 2006. *Watchout! Deferring may cause jumps in brackets.* In limited circumstances, you may actually benefit by accelerating income into 2005. For example, you may anticipate a higher bracket in 2006. *Watchout! Accelerating income into 2005 can be disadvantageous if you expect the same or lower bracket for 2006.* Deduction timing is also an important element of planning. If you are a cash-method taxpayer, keep this in mind:
  - a. **Deduction In Year Paid:** *An expense is generally deductible in the year in which it is paid. Tip: Date checks before the end of the year and mail them before 1/1/2006.*

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- b. *Promise To Pay: A mere promise to pay will not permit you to deduct the expense whereas you can deduct if you pay with money borrowed from a third party. **Tip:** If you pay by credit card in 2005, you can generally deduct even though you won't pay your credit card bill until 2006!*

Lastly, when implementing deferral or acceleration strategies use a licensed professional to properly compare multiple years; this area of planning is complex due to factors such as tax brackets, items affected by AGI, and filing status.

5. **KNOW YOUR CREDITS** - Typical credits include the Child Credit, Adoption Credit, HOPE and Lifetime Learning Credits, and the Pension Plan Startup Credit. In addition, note the following new credits: Alternative Motor Vehicle Credit: Starting in tax year 2006, a credit is available; however the credit ends once a certain sales volume (tied to 60,000 vehicles sold nationwide) is achieved. Residential Energy Efficient Property Credit: If you plan on installing certain energy efficient property (such as photovoltaic, solar water heating or fuel cell property) install between 1/1/ 2006 and 12/31/2007 to take advantage of the credit. Nonbusiness Energy Property Credit: A credit is available for qualified energy efficiency improvement items (such as advanced main air circulating fans, natural gas, propane, or oil furnace or boiler, windows, insulation material, exterior doors, etc.) purchased between 1/1/ 2006 and 12/31/2007.
6. **KNOW YOUR INVESTMENTS** -The following rules apply for most capital assets in 2005: Gains on property held one year or less are taxed at an individual's ordinary income tax rate. Gains on property held over one year are taxed at a maximum rate of 15% (5% if an individual is in the 10% or 15% brackets.) Losses may be fully deducted against gains and also may offset up to \$3,000 of ordinary income. Qualifying dividends received in 2005 are taxed using capital gains rates, i.e. at a maximum rate of 15%. To minimize taxes, consider giving appreciated property to children or grandchildren if they are in a lower tax bracket than your own. For 2005, you may give gifts of up to \$11,000 without incurring any gift tax.
7. **KNOW YOUR CPA** - With increased complexities of tax law, it is virtually impossible to get correct advice if you do not have the right relationship with your advisor and moreover if they do not know enough about you.

**At Compass CPA Group we offer "Strategic Tax Planning", we put our clients in control of their taxable income. CALL TODAY for a FREE consultation 749-2200.**

It is the mission of Compass CPA Group "to provide value to our clients by helping them make an informed decision through timely and competent professional advice". CPA Daniel Hodges has nearly ten years experience in business-to-business consulting. He is a graduate of Valparaiso University's school of business, holds a bachelor's degree in accounting, and is a Certified Public Accountant.

For more information or to make an appointment please call CPA Daniel Hodges at our New Haven, Indiana office. Please call us at 749-2200 or visit our website at [www.compasscpagroup.com](http://www.compasscpagroup.com) for contact information and other details regarding the firm.

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